

**Testimony of Douglas A. Boone
Chief Executive Officer, Premier Communications
Before the Senate Committee on Commerce, Science and
Transportation**

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Mr. Chairman, Co-Chairman Inouye and members of the Committee, I am Douglas A. Boone, chief executive officer of Premier Communications, headquartered in Sioux Center Iowa. I appreciate the opportunity to appear before you today both in my capacity as the CEO of Premier as well as on behalf of the United States Telecom Association (USTelecom), regarding government-owned networks and their impact on rural companies like ours.

USTelecom is the premier trade association representing service providers and suppliers for the telecom industry. USTelecom's 1,200 member companies offer a wide range of services, including local exchange, long distance, wireless, Internet, Internet Protocol video and telephony and cable television service. Our membership ranges from the smallest rural telephone companies to some of the largest corporations in the U.S. economy.

Premier Communications is the communications leader of voice, video and data services in northwest Iowa. We have the privilege of providing services in 18 rural communities throughout northwest Iowa. Our extensive fiber optic network allows Premier Communications to offer the best in cable television programming, high speed Internet services, local and long distance telephone and high capacity data and voice circuits.

Mr. Chairman, thank you for holding this hearing today, and for your strong support for companies serving rural America. The familiarity of you and other committee members with rural America is particularly important on this issue. You know that "examples" from major cities are not always relevant in rural America.

While we recognize the concern, and sometimes the perceived need, for government-owned networks, we are concerned about the ramifications of a federally imposed standardized, one-size-fits-all, solution across the country. This is an issue that should be left to the states and localities to work out between themselves. I hope the testimony I offer here today will serve as a cautionary note to those who would use federal legislation to provide local governments with a blank check to enter lines of business traditionally served by the private sector.

Government owned networks are not akin to other public utilities. In fact, government networks are more akin to City Hall opening a chain of grocery stores or gas stations. They typically require heavy taxpayer subsidization, which minimizes any net benefit to local residents. They also benefit from tax advantages and regulatory exemptions that do

not apply to private firms. Because they are not subject to the pressures and stresses of the marketplace, they often neglect innovation, which leads to technological stagnation over time. As a general principle, bear in mind that building out existing networks is far more cost-effective than building an entire network from the ground up and maintaining and upgrading it over time.

I would like to spend a few minutes describing a situation we are facing in Sanborn, Iowa, a community we have served for almost 40 years. In Sanborn, Premier has experienced first hand the effects of a local municipality building a network that was redundant to ours and then being forced to compete with that municipality for the same customers. In this case, a very small customer base of 1,000.

The simplest way to measure this impact is that over the past 4 years we have lost almost 50% of our subscribers. Did we lose these customers because we were not providing the services customers wanted or because we were overpricing our services? Absolutely not. The services we provided at the time and continue to provide are second to none and the rates charged were fair and well below the surrounding communities. However that did not stop local government representatives from making insinuations of raised taxes if the citizens did not take the municipal services. Obviously this would be very persuasive to many customers.

I understand that competition is good. We are seeing its effects in every sector of the industry. However, for competition to be truly effective the playing field must be reasonably level. This is extremely difficult when setting the private sector networks against the government funded networks.

The most obvious inconsistency between the private and public sector networks is in the area of taxes. As a private company we pay local, state and federal taxes. These account for more than 40% of our profits. Our taxes support the workings of government, law enforcement, social programs, education and national defense. We accept that as our corporate responsibility. Local governments do not pay taxes. It is difficult to compete when the local municipality starts out with a 40% discount. As a matter of fact a representative from the City of Sanborn said local government does not need to show a profit as long as they can pay off the debt on the network they built. That attitude may work for a short while but it will not serve the customer very well in the long run because deployment of new technologies and upgrades to infrastructure must come out of profits.

Another major inconsistency between private and public is in the geographic areas they serve. For 100 years Premier Communications has served all customers, whether in the city or in the rural areas surrounding our communities. The government networks have stated they have no intention of serving the rural customers because of the high cost of providing service. We have accepted that responsibility but will not be able to continue to do this if we lose the customer base in our communities to local government networks.

At the state legislature in Iowa there is always a lot of debate on economic development. I find it interesting that with all this talk of economic development and wondering how we can support small rural communities that we face a situation in Sanborn were we are

being told we are not wanted. The municipality would prefer that we would just exit the market and leave millions of dollars in stranded network investment. It is somehow forgotten that Premier has employees that have lived, worked and shopped in Sanborn for decades. We have a staffed business office in Sanborn that has been open for decades. These are things most small rural communities say they want when drawing a business into a community. The reality is that the municipality has no real choice - once a local network is built and the investment has been made they must do whatever it takes to make it financially viable – no matter who it may harm.

Rural Iowa, as in rural areas all across the country, has witnessed tremendous growth in telecommunications services in recent years, thanks to private providers like Premier who have invested and risked millions of dollars to upgrade their networks and technologies.

Customers will continue to require higher capacity networks to grow and adapt to the exciting new personal, entertainment and business services that use broadband technologies. Private companies are committed to investing in their networks but may be reluctant to do so if the threat of municipal network overbuilding continues.

Many who promote the idea of municipal-owned broadband networks are touting their plans as “no-risk,” but numerous municipalities around the country who bought into the “no risk” idea have found themselves unable to support and finance the continual and expensive upgrades needed to maintain a local network.

A recent study in my home state of Iowa further confirms Premier’s experience. Ronald Rizzuto, professor of finance at the University of Denver looked at the financial performance of three municipal communications systems operating in the areas of Cedar Falls, Muscatine, and Spencer, Iowa. Dr. Rizzuto looked at the annual financial reports of the three systems to determine whether they were paying their debts, if they could function as stand-alone entities, and the return on investment that each community achieved on the systems. He concluded “not one of them has generated a positive return on the investment.” Nevertheless, many, if not most, municipal communications systems continue to assert that they are cash-flowing. I would also note that the state built Iowa Communications Network is struggling financially, constantly putting pressure on state government for additional funding for continued network upgrades with no hope of a reasonable payback.

In addition, too many local governments are diverting funds away from education, public safety, and public works. Marietta, Georgia, spent \$34 million on its municipal network, only to sell it for a \$23-million loss. Ashland, Oregon, incurred millions in cost overruns. Due to these and other concerns, many states have passed legislation barring government entities from unfairly competing in the communications marketplace. These networks are built at extraordinary public cost and often in areas where private networks already exist. This deters private investment in local communications infrastructure and burdens taxpayers with a large, ongoing expense for a service they can obtain in the marketplace.

There are legitimate concerns about providing broadband service in rural and underserved areas. There may be communities, even regions of the country, where a stronger government role is needed. Let me offer three recommendations in place of legislation that simply waives any state role in these decisions:

- First, promote broadband in rural and underserved areas by strengthening and stabilizing universal service, making broadband investment eligible for USF support.
- Second, ensure adequate resources are available to USDA rural utilities programs that help private communications carriers enhance the services they provide to rural communities. I must note the FY07 proposal for the broadband loan program suffered a significant cut, to \$356.4 million from current level of \$500 million.
- Lastly, where a government entity enters a market served by the private sector, ensure it cannot do so in an anti-competitive manner that discourages private investment. Specific unfair advantages would be unilateral regulatory exemptions, cross-subsidization or tax breaks.

On behalf of Premier Communications and my fellow members of USTelecom, I urge this committee to avoid inserting itself into contentious debates occurring in states and communities across the country. There are no easy answers when it comes to promoting broadband deployment, and there are many hazards associated with putting government into competition with private network operators. The best solution is to ease the regulatory burden on private providers so they can continue to upgrade and improve their services.

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